

**TRABUCO CANYON WATER DISTRICT
FINANCE AUDIT COMMITTEE MEETING RECAP
JANUARY 13, 2016**

DIRECTORS PRESENT

Committee Chair James Haselton
Committee Member Michael Safranski

STAFF PRESENT

Hector Ruiz, General Manager
Michael Perea, District Secretary
Karen Warner, Accounting Supervisor
Lisa Carmouche, Administrative Assistant

CONSULTANT (S) PRESENT

Cindy Byerrum, District Treasurer (Platinum Consultants)

PUBLIC PRESENT

There were no members of the public present

CALL MEETING TO ORDER

Director Safranski called the January 13, 2016, Finance/Audit Committee Meeting to order at 7:02 A.M.

VISITOR PARTICIPATION

No visitor participation was received.

ORAL COMMUNICATION

No oral communication was received.

COMMITTEE MEMBER COMMENTS

Director Safranski commented on a recent Orange County Register article which highlighted the approval and adoption of the District's water, wastewater, recycled water rates and meter flat rates.

Director Haselton commented the District's Other Post-Employment Benefits challenges and strategies; Mr. Ruiz mentioned that the matter would be reviewed in the agenda.

REPORT FROM THE GENERAL MANAGER

Mr. Ruiz had no comments.

ITEM 1: FINANCE/AUDIT COMMITTEE MEETING RECAP

The December 9, 2015, Finance/Audit Committee Meeting Recap was presented to the Committee.

RECOMMENDED ACTION:

Director Safranski, Committee Chair, and Mr. Perea, District Secretary, approved and recommended that the December 9, 2015, Finance/Audit Committee Meeting Recap be received and filed by the Board (Consent Calendar).

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ITEM 2: RATIFICATION OF DIRECTORS' FEES AND EXPENSES, TENTATIVE FUTURE MEETINGS/ ATTENDANCE ITEMS

The Committee reviewed the information presented. Discussion occurred concerning the format and layout of the Directors' Fees and Expenses Report, and the classification and determination of reimbursable fees.

RECOMMENDED ACTION:

The Committee recommended that the Directors' expenses and fees for December, 2015, and the tentative future meetings be forwarded to the Board for ratification (Consent Calendar).

ITEM 3: DISCUSSION CONCERNING THE FUNDING OF THE DISTRICT'S OTHER POST-EMPLOYMENT BENEFIT (OPEB) OBLIGATION

Mr. Ruiz presented this matter for Committee review, and mentioned that the District is required to complete an Actuarial Valuation Report (Report) of its Retiree Health Program on a biennial basis as a member of the CalPERS California Employers' Retiree Benefit Trust (CERBT). Mr. Ruiz reviewed the CalPERS CERBT OPEB Funding Policy (Policy) that was executed in 2013, and highlighted the Annual Required Contribution (ARC) Contribution Method in which the District contributes ARC payments to the trust net of Pay-go costs and not seeking reimbursements. Mr. Ruiz reviewed the Report as of June 30, 2015, as prepared by Nyhart, and added that the District pays for Retiree benefits in an ongoing basis per the Policy. Discussion occurred concerning the trust funding status and past payments and the new explicit and implicit rate valuations; Mr. Ruiz mentioned that the District's first payment paid for the unfunded years prior to the execution of the Policy, and the District is funding the trust based on the biennial Report. Mr. Ruiz highlighted the District's vesting policy criteria for employees hired after April 1, 2014, which incorporates the State of California Government Code and prorates the District's contribution to post-retirement health care costs based on years of CalPERS service with a minimum of five years of service. Mr. Ruiz reviewed the purpose of the trust and the planned contribution for Fiscal Year 2015/2016 based on the Report.

RECOMMENDED ACTION:

The Committee received the Actuarial Valuation Report of the District's Retiree Health Program as of June 30, 2015, and recommended that the Board receive and file (Action Calendar).

ITEM 4: DISTRICT ANNUAL FINANCIAL REPORT (AUDIT) FOR FISCAL YEAR 2014/2015

Mr. Ruiz presented this matter to the Committee, and mentioned that Ms. Byerrum was in attendance to answer their questions concerning the Audit. Ms. Byerrum mentioned that representatives from The Pun Group (Auditors) are available to attend the Regular Board Meeting to review the Audit with the Board. Ms. Byerrum reviewed the Audit, and highlighted the following items:

- ***Independent Auditors' Report:*** Ms. Byerrum commented this item represents the Auditors Opinion Letter concerning the financial position of the District as of June 30, 2015.
- ***Balance Sheet:*** Ms. Byerrum reviewed the Balance Sheet, including new requirements due to Government Accounting Standards Board (GASB) Statement Nos. 68 and 71. Ms. Byerrum reviewed the Non-Current Liabilities, Net Other Post Employment Benefits Payable, and mentioned that this item represents the liability as of June 30, 2014. Discussion occurred concerning the impacts of the Public Employees Pension Reform Act (PEPRA) of 2013.
- ***Statement of Revenues, Expenses, and Changes in Net Position:*** Ms. Byerrum reviewed the Statement, and mentioned that per new GASB reporting requirements, net pension liability is reported under the liabilities

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section and is currently \$545,405 as of June 30, 2014, which is before the implementation of the District's new water, wastewater, recycled water rates and meter flat charges on January 1, 2016. Ms. Byerrum reviewed the Net Position at the beginning of the year, and mentioned that a prior period adjustment of \$1,813,077 was included as a result of the implementation of GASB Statement Nos. 68 and 71. Discussion occurred concerning the determination methodology for Depreciation of Assets; Ms. Byerrum mentioned that asset depreciation is based on past cost, not replacement costs.

- **Required Supplementary Information:** Ms. Byerrum mentioned that she has contacted the Auditors concerning an update to this page to reflect the District's funding of the OPEB obligation through Fiscal Year 2014/2015 which demonstrates contributions to the CalPERS CERBT.

Discussion occurred concerning the necessity of the Auditors attending the Regular Board Meeting presentation, or if the audit can be presented by the District Treasurer.

RECOMMENDED ACTION:

The Committee received information concerning the District's Annual Financial Report (Audit) for Fiscal Year 2014/2015, and recommended that the District Treasurer present the Audit to the Board for their receive and file (Action Calendar).

ITEM 5: DISTRICT TREASURER ANNUAL STATEMENT OF INVESTMENT POLICY

Mr. Ruiz presented this matter for Committee review, and mentioned that the District Treasurer's Annual Statement of Investment Policy (Policy) is reviewed and adopted annually by the Board. Mr. Ruiz added that the Policy has substantively remained the same for the past twenty years, but that the adoption of the District's new Reserves Policy has presented newly proposed changes to the Policy. Ms. Byerrum reviewed the recommended changes to the Policy, specifically concerning funding the District's OPEB in CalPERS CERBT and strengthening language concerning ethics and conflict of interest requirements and the necessity to maintain a list of financial institutions per the existing Policy. Mr. Ruiz mentioned that the list, in accordance with the previous Reserves Policy, consisted of only the Local Area Investment Fund (LAIF) and such there has not been any other list. Mr. Ruiz added that District General Legal Counsel will review the proposed changes to the Policy prior to review at the Regular Board Meeting.

RECOMMENDED ACTION:

The Committee received information concerning the District Treasurer Annual Statement of Investment Policy, and recommended the Board adopt Resolution No. 2016-1222 – Resolution of the Board of Directors of the Board of Directors of Trabuco Canyon Water District Adopting Treasurer's Annual Statement of Investment Policy (Action Calendar).

ITEM 6: OTHER MATTERS

Mr. Ruiz reviewed the following other matters:

- The District is currently advertising a Wastewater Treatment Operator-in-Training Employment Position. Mr. Ruiz briefly explained the recent organization changes due to the retirement of two employees in the District's Maintenance Department and the subsequent reclassification of certain employees.
- Mr. Ruiz mentioned that District staff are currently evaluating the current utility billing system, and have determined that the system has significant limited resources which specifically affect the implementation of

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the newly adopted water, wastewater, recycled water rates and meter flat charges. Mr. Ruiz added that District staff will consider proposals for implementation of a new utility billing system.

- Mr. Ruiz mentioned that he would like to hold the Annual Meetings for the Trabuco Canyon Public Financing Authority and the Trabuco Canyon Investment Corporation in February after the completion and receipt of the annual audits.

RECOMMENDED ACTION:

The Committee received the information. No action taken.

ITEM 7A: FINANCIAL REPORT

Ms. Byerrum presented the unaudited financials for November, 2015, for Committee review, and highlighted the following items:

Statement of Revenues and Expenses

- Operating Revenue – Total Operating Revenue:

Ms. Byerrum commented that this line item's current year to date is lower than the prior year to date due to conservation efforts and the impact of the State Water Board's mandated emergency regulations.

- Non-Operating Expenses – Principal & Interest Expense:

Ms. Byerrum commented that this line item's current year to date is higher than the prior year to date due to the timing of the Series C Principal Payment.

- Net Income Before OPEB & Depreciation:

Ms. Byerrum commented on this line item current year to date.

Discussion occurred concerning the implementation and impact of the adopted water, wastewater, recycled water rates and meter flat charges.

RECOMMENDED ACTION:

The Committee recommended that the Board receive and file the November, 2015, unaudited Financial Statement, as presented (Consent Calendar).

ITEM 7B: FINANCIAL REPORT

Mr. Ruiz presented the bills for consideration for January 13, 2016.

RECOMMENDED ACTION:

The Committee signed the bills for consideration and the warrant register, and recommended that the Board ratify payment of the bills for consideration for January 13, 2016, as presented (Consent Calendar).

ADJOURNMENT

Director Haselton adjourned the January 13, 2016, Finance/Audit Committee Meeting at 8:27 A.M.